Dedicated to the memory of Charles Tilly

The New Fiscal Sociology

TAXATION IN COMPARATIVE AND HISTORICAL PERSPECTIVE

Edited by

Isaac William Martin
University of California, San Diego

Ajay K. Mehrotra
Indiana University – Bloomington

Monica Prasad
Northwestern University

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Epilogue: A Renaissance for Fiscal Sociology?

JOHN L. CAMPBELL

As the editors of this volume remind us in their introduction, the comparative and historical study of taxation should be a field of considerable importance because taxes – and revenues in general – provide the means with which states implement a host of policy initiatives. Indeed, tax revenues are the "life-blood" of the modern state (Braun 1975: 243). Without them it is hard to imagine how states could sustain welfare or defense programs; maintain infrastructures like roads, airports, schools, and public transportation systems; regulate business and markets; enforce property rights and the law; or support commerce. To be blunt, without revenues it is inconceivable how states could provide the support necessary for capitalism itself.

Nevertheless, and despite the fact that influential theorists, such as Max Weber and Joseph Schumpeter, called for and did research on the subject, the field of fiscal sociology, as Schumpeter called it, has experienced somewhat of a hiatus. There are, of course, significant streams of research that investigate taxation and other means by which states generate revenue. Most obvious is the field of public finance in economics. Historians, sociologists, and political scientists have also made some contributions over the years (Campbell 1993). Yet, observers argue that the field has not yet developed into a coherent research area, by which they mean presumably that it has not yet established a unifying theoretical perspective or identified essential debates (Swedberg 2003: 178–9). To be sure, fiscal sociology remains overshadowed relative to many other areas of research in the social sciences. Still, there are signs that this may be changing and that fiscal sociology may be on the verge of a renaissance. In their introduction to this volume, the editors briefly raise this possibility, but I want to examine it in more detail here.

There are several reasons for this possible renaissance. Some of them involve the nature of discourse about fiscal sociology within the social sciences. Some of them stem from changes in politics and in national and international political economic environments. Some of them are reflected in the contributions to this volume. And some of them are to be found in the broader literatures of the social sciences.

DIALOGUE ACROSS DISCIPLINARY AND SUBDISCIPLINARY BOUNDARIES

First, as this volume demonstrates, scholars from different social science disciplines are beginning to talk to one another across disciplinary boundaries and recognize each other's work in the area of fiscal sociology. Where such interdisciplinary discourse arises, intellectual cross-fertilization and, in turn, important breakthroughs sometimes follow. This has been the case historically in areas including science, music, and art.

For example, major intellectual breakthroughs in science have often resulted from scientists being located in places where several different disciplinary currents converged, thereby affording them an opportunity to blend their seemingly disparate ideas in new and profound ways that changed the course of science. A case in point is the famous Pasteur Institute in France. During its early days, it was one of the most successful and productive research centers of its kind in the world. This was because it was among the first to recruit scientists from diverse fields, such as biology and chemistry, to work and teach together. This resulted not only in the development of new medicines and vaccines, which led to national and international accolades, including Nobel Prizes, but also – and this is the important point – new and influential subfields of science, such as biochemistry (Hage and Mote 2008). Similarly, in music, as is well known, young artists gave birth to rock 'n' roll by combining elements of blues, gospel, and even a bit of jazz. In principle, there is no reason why fiscal sociology cannot grow as a strong and coherent subfield of research in the social sciences – at least so long as this sort of expansive interdisciplinary discourse continues to develop. Certainly the editors of this volume are to be commended for encouraging such a dialogue.

However, the development of broader and more inclusive dialogues about fiscal issues can also occur across subfields within social science disciplines. For instance, one of the more encouraging signs that this is happening is in political science. Scholars are beginning to examine the relationships between welfare and tax policy and recognize that we cannot really understand changes in one without understanding changes in the other. In other words, welfare and tax policy are mutually constitutive (e.g., Kato 2003; Pierson 1994). For instance, as Christopher Howard's chapter shows, in the United States a significant amount – as much as 40 percent – of the nation's total welfare spending is, in effect, provided to the middle and upper-middle classes through tax expenditures for things like childcare, housing, health care, and private pension accounts. Other political scientists who have traditionally studied the political and economic determinants of welfare policy in different types of welfare states are now exploring whether the same models can also explain variation in tax policy (Swank 2002).

Subfield dialogues are also possible in sociology and ought to be pursued. As in political science, there has long been great interest among political sociologists in identifying the determinants of different types of policy. Furthermore, among economic sociologists there is much interest in identifying the institutional determinants of change in corporate and industrial structure. Property rights are one of

these determinants. And tax policy is one of the most important forms of property rights. It determines the degree to which states take profits from firms and earnings from individuals, thus impinging directly on rights of private property ownership and appropriation. It also affects the investment strategies of firms and individuals and, as a result, how they use their property. Hence, fiscal sociology has much to offer both political and economic sociology. The same is true for the sociology of law.

Although the intellectual dialogue around taxation is expanding and can be expanded further both across and within social science disciplines, I do not mean to be naïve. This will not necessarily be easy. As the editors note in their introduction, the professional disciplines in the social sciences have grown more specialized, compartmentalized, and insulated during much of the twentieth century. So the degree to which they will accommodate such a discourse is an open question. Yet, the fact that many universities have started to recognize the benefits of and encourage interdisciplinary dialogue suggests that these disciplinary barriers can be breached. So does the fact that a volume like this can find a good publisher!

Similarly, within disciplines different intellectual traditions have become partitioned over the years. In economics, for example, formidable professional barriers were built in the United States separating institutionally and historically oriented work from ahistorical formal modeling, particularly of the neoclassical and rational choice varieties, which came to dominate the field (Yonay 1998). Similar divides have developed in political science and to a lesser extent in sociology where rational choice theory was on one side of the fence and other approaches were on the other side. Few people were willing to engage in constructive conversations across the fence. The potential for this sort of problem exists in fiscal sociology. After all, some scholars in fiscal sociology attend to the institutional, historical, and symbolic elements of taxation, as the chapters in this volume by W. Elliot Brownlee, Robin L. Einhorn, Charles Tilly, and Joseph J. Thorndike, among others, aptly demonstrate. But others, including Naomi Feldman and Joel Slemrod in this volume, are concerned with more formal rational choice theorizing. However, this sort of intellectual divide is neither inevitable nor insurmountable. Edgar Kiser and Audrey Sacks's chapter is a case in point insofar as it effectively blends rational choice theory with historical analysis.

TAXATION AND THE RISE OF NEOLIBERALISM

The second reason why fiscal sociology may experience a renaissance is that the issue of taxation has moved up the political agenda in many countries to a point where it is now one of the most important issues being debated publicly. This is due to the rise of the neoliberal policy paradigm that prescribes significant reductions in taxes and government spending. Neoliberalism emerged in response to the failure of Keynesian economic policies to resolve stagflation during the 1970s. This was perhaps most obvious in the Anglo-Saxon countries, where calls for neoliberal policy began to be heard in the mid-1970s and eventually culminated in major tax reforms. Especially in Britain and the United States, where tax issues helped

Margaret Thatcher and Ronald Reagan rise to power, cutting taxes and reducing government expenditures were central parts of their new conservative agendas. Some of the authors in this volume, notably Fred Block and Andrea Campbell, discuss this explicitly and explain some of the politics that caused this to happen. Whether neoliberalism will continue to dominate policy making in the wake of the 2008 financial crisis remains to be seen. But the fact that the massive government bailout and stimulus packages in the United States, currently expected to be in excess of $1.4 trillion, will send fiscal deficits skyrocketing ensures that the issue of lowering or raising tax rates will remain at the center of policy making debates for years to come as policy makers struggle with deficit problems.

However, the issue of taxation has become increasingly politicized elsewhere as well. In Scandinavia, where taxes have long been among the highest in the capitalist world, governments have recently risen and fallen on the issue. In Sweden, after decades of nearly uninterrupted rule by the social democrats, a newly elected conservative government came to power promising neoliberal tax reform. Soon thereafter, in 1991, they cut marginal tax rates on personal and capital income and closed many tax loopholes. A few years later, the social democrats returned to power and raised these rates again, in part because there was public outcry that the effect of the conservative tax reforms had shifted the tax burden regressively from higher to lower income groups (Blyth 2002; Campbell 2004, Chap. 5). Neoliberal tax policy also played a prominent role in Danish politics. One of the key issues that helped the conservatives form a coalition government there in 2000 was their promise to reduce the general tax burden.

Taxation has also risen on the political agenda in other parts of the world as neoliberalism has spread. The chapter by Eisaku Ide and Sven Steinmo shows how this happened in Japan as policy makers pursued supply-side tax cuts after the 1970s oil shocks in the hope of bolstering state finances – a move by which Japan began to resemble the United States from a fiscal point of view. And as Kiser and Sacks point out, developing countries, such as Uganda, South Africa, and Kenya, have also been affected in varying degree by the neoliberal movement insofar as they have embraced the so-called New Public Management program, which seeks to improve the efficiency of public administration, including the efficiency with which states collect taxes.

Finally, issues of fiscal reform have been of the utmost importance in postcommunist Europe and Russia since 1989. This is especially clear in Tilly's chapter about the Russian case. Public sentiment and the politics surrounding these reforms have been formidable and quite variable across countries. As a result, the timing and depth of these reforms as well as the extent to which they have stuck has also varied across the region. The influence of neoliberalism has been unmistakable there, particularly insofar as governments embraced the shock therapy approach, advocated by the International Monetary Fund and other international organizations and advisors, which encouraged steep reductions in state revenue extraction and spending. And, again, some governments have risen and fallen because of how they handled these issues (Bönker 2006; Campbell 2001).

In sum, as Keynesianism fell into disrepute, as communism collapsed in the Soviet Union and Eastern Europe, and as other countries around the world moved

to develop themselves economically during the late twentieth century, neoliberalism rose to prominence politically. And with it so did increasing public and political concern over tax reform. It does not seem likely that this issue will soon drop off the political agenda or recede from public discourse. To the extent that public issues fuel academic research and theorizing, the political situation in the world today provides a window of opportunity for fiscal sociology – particularly as calls for, and reactions against, neoliberal tax reform continue to influence policy making agendas in high-profile ways.

TAXATION AND GLOBALIZATION

The third reason why fiscal sociology may experience a renaissance is closely related to the last one. Politicians, the business community, and increasingly, the public are aware that the world has become much more interconnected through the process of globalization. By globalization I mean rising levels of international economic activity, such as trade, foreign direct investment, transnational corporate activity, and capital mobility more generally. It is virtually impossible nowadays to open a major newspaper without seeing something about globalization. This is even more obvious in a quick scan of the financial pages and the business press. And within the social sciences, globalization has become an increasingly hot topic judging from the exponentially rising number of citations on the subject in recent years (Guillén 2001; Ó Riain 2000). One of the most pressing issues in all of this concerns the relationship between globalization and taxation. Debate revolves around the following question: Does globalization necessarily lead to a convergence across countries in tax rates and tax burdens, especially on business and capital, such that national governments must "race to the bottom" toward some minimal level of taxation (e.g., Dehejia and Genschel 1999; Genschel 2002)?

According to the conventional wisdom, the pressures of globalization are forcing advanced capitalist states to do exactly this in order to reduce the costs to firms of doing business. Why? Competition for capital is the key. Dramatic advances during the late twentieth century in transportation and telecommunications, such as overnight air delivery, fiber optics, microwave and satellite communications, and computer microprocessing, have vastly improved firms' knowledge of profitable economic opportunities around the world and have increased the speed and effectiveness with which they can pursue them. International capital mobility has increased accordingly. Capital mobility was facilitated further by the breakdown in 1971 of the Bretton Woods system of fixed exchange rates; by the deregulation of international capital flows after that; and by trade liberalization both unilaterally and through international agreements, such as the General Agreement on Tariffs and Trade (GATT) and subsequently the World Trade Organization (WTO). All of this increased the threat of capital flight – that is, the tendency for capital to move from one country to another in search of the most profitable business environment. In turn, it is argued, states must compete more aggressively to attract and retain capital investment within their borders. To do so successfully they must cut taxes. Otherwise they will suffer rising interest rates, sluggish economic growth, higher unemployment, and other economic maladies that will eventually force them to adopt these measures anyway (Cerny 1997; Giddens 2000; Greider 1997; McKenzie and Lee 1991; Ohmae 1990, 1995; Strange 1997; Tanzi 1995: xvii).

This perspective is ubiquitous in public discourse (Block 1996; Bourdieu 1998). It also enjoys a place in academic debate (e.g., Genschel 2002; Swank 2002, Chap. 7). Furthermore, politicians frequently invoke the argument to justify a variety of policy moves (e.g., Schmidt 2002, Part III). And international agencies continue to lament the threat of capital flight and urge countries to collectively address it. For instance, the Organisation for Economic Co-operation and Development (OECD) is so concerned about this that it warned that tax competition will undermine the ability of national governments to maintain their tax bases and, therefore, urged international cooperation to eliminate such harmful tax practices (OECD 2000).

However, a number of scholars have raised serious doubts about this argument. For instance, John Hobson (2003) showed that the real direct and indirect tax burdens in OECD countries have actually risen on average since the 1960s, albeit at slower rates since the mid-1980s. He argued that this was because while tax rates at the top were trimmed, the tax base was broadened by closing various tax loopholes – a move designed to defend the public treasury and avoid exorbitant deficits. Indeed, the tax burdens on capital in particular, including corporate income taxes, have risen, not declined, during this period (Swank 2002, Chap. 7). Others have made similar arguments even when examining different types of political economies within the OECD group, such as those with different types of welfare-state regimes and, thus, different revenue requirements (Campbell 2005, 2004, Chap. 5). So, despite the conventional wisdom, research thus far has found little support for either the convergence or race-to-the-bottom arguments. At least one major study suggests why: tax regimes per se – and government fiscal policy more generally – do not have much effect on the investment decisions of multinational corporations. Foreign direct investment is affected far more by the quality of a country's political institutions and the political risks that multinationals believe are associated with these institutions (Jensen 2006).

Because debates such as this are relevant both for academic and public discussion, they can provide another platform for elevating the coherence and profile of fiscal sociology if scholars take advantage of it. This possibility is enhanced, as I suggested earlier, by the fact that these debates involve researchers from several social science disciplines. Indeed, sociologists, political scientists, and economists (not to mention journalists) have all weighed in on the issue of globalization and tax convergence.

TAXATION AS A SOURCE OF INSTITUTIONAL COMPETITIVENESS

The fourth reason for optimism that fiscal sociology may blossom is that scholars, politicians, and business leaders are beginning to understand that the fortunes of business firms and, in turn, industries and national economies depend significantly on the institutions within which firms operate. Put differently, firms can compete successfully not only by cutting costs, as is well known, but also by taking advantage of the benefits afforded them by the surrounding institutions within which they operate – including the institutions of taxation and revenue extraction.

A large literature in comparative political economy now recognizes that the routes by which firms compete successfully in today's world may vary tremendously depending on national institutional conditions. Success can be achieved in more than one way (e.g., Hall and Soskice 2001). For instance, where taxes are low, firms can compete on the basis of low cost. However, where taxes are high, firms can compete on the basis of high-quality production, innovations in products and production processes, and other things that depend on a well-trained labor force, state-of-the-art technological infrastructure, and more. In this case, high taxes are often necessary in order to support education, continuous vocational training, technological development, and the like. In other words, contrary to neoliberalism and the conventional globalization thesis, high taxes may actually be an important and beneficial source of institutional competitiveness in some situations rather than an obstacle to it (Campbell and Pedersen 2007a).

Some members of the business community understand this. Consider two very different national economies: Denmark and the United States. In the United States, total government revenues amounted to about 26 percent of Gross Domestic Product (GDP) in 2001. This was among the lowest tax burdens among the advanced capitalist countries. In Denmark, they were nearly twice that amount at 48 percent. Furthermore, in 2003 taxes on income and profits in the United States were 11 percent of GDP, whereas in Denmark they were nearly three times that amount at 29 percent (OECD 2006b). Given the conventional wisdom about the need for low taxes in order to avoid capital flight and economic trouble, we should expect that the Danish economy would be in the doldrums, but it is not. According to the World Economic Forum (2006), despite its very high taxes Denmark ranks among the most competitive economies in the world and one of the most attractive places for business investment.[1] This is because the Danes spend tax revenue on things that boost national economic competitiveness like publicly funded education all the way through college and an excellent national apprenticeship program for students not going to college. The result is one of the world's most skilled labor forces. Danes also enjoy a publicly financed universal health care system that is less expensive and more effective than the U.S. health care system in terms of many national health indicators. In turn, firms operating in Denmark benefit from smart, innovative, and healthy workers and are not saddled with the exorbitant costs of health insurance as are firms in the United States. The competitiveness of Danish firms in the global economy has benefited as a result (Campbell and Pedersen 2007b).

Not only have these sorts of tax-based benefits enhanced the competitiveness of Danish employers, they have also proven attractive to foreign firms – including many based in low-tax countries, such as the United States. The director of European operations for one of the largest U.S. software-manufacturing companies recently told one of my Danish colleagues that these institutional benefits were the sorts of things that led his firm to put its European headquarters in Copenhagen,

[1] In 2006, Denmark ranked fourth in the world following only Switzerland, Finland, and Sweden. The Danes managed this while minimizing income inequality and poverty. The poverty rate in the United States is about twice as high as it is in Denmark, and the level of income inequality is much higher in the United States too (Campbell and Hall 2006).

adding quickly that Denmark's high taxes were not even a consideration. The fact that some – but certainly not all – business leaders recognize that high taxes may yield important benefits is probably another reason why OECD states have not moved more aggressively to cut taxes (e.g., Kiser and Laing 2001; Swank 2002, Chap. 7). This is certainly consistent with Evan Lieberman's premise in this volume that taxpayers are more likely to accept tax policies if they believe that they will enjoy benefits from these policies. According to public opinion polls, this story holds true for Denmark as well (Goul Andersen 2005).

Politicians in some countries are also beginning to recognize the benefits of high taxes for national competitiveness. I recently addressed the Danish Prime Minister's Globalization Council, which invited me to speak about the institutional basis for Denmark's recent competitive success. I talked about some of the benefits of high taxes as outlined earlier. Members of the audience, including a former head of the central bank, agreed. After I finished, one high-ranking government official told me privately that the government understood this and assured me that they had no intention of pursuing draconian tax cuts. This, of course, was the same government that had come to power only a few years earlier calling for significant tax cuts. They never followed through, in part because they realized apparently that although promising tax cuts might be good political rhetoric during an election campaign, steep tax cuts could undermine the institutional basis of Denmark's impressive success. Indeed, the Globalization Council's final report emphasized the importance of maintaining and improving tax-based institutional supports for the Danish economy (Globalization Council 2006).

Recognition by business leaders and politicians as well as academics that the relationship among taxation, government spending, and national economic performance is more complex than previously understood by many people provides another window of opportunity for fiscal sociology. Because little is known about this relationship, particularly how it varies cross-nationally and historically, fiscal sociology can provide insights that are interesting for business, politicians, and academics alike. Of course, how tax regimes should be configured and administered are difficult questions. And the answers are likely to be both historically and nationally specific with important normative implications. Indeed, Beverly Moran's chapter shows that debates over taxation stretching all the way back to Adam Smith revolved around normative questions regarding the best way to tax people in order to ensure equality and justice.

CONCLUSION

In sum, there are several good reasons to be optimistic that fiscal sociology may soon enjoy a renaissance. Particularly encouraging is the fact that important debates are emerging upon which scholars from different disciplines can focus collectively – debates that are not just about arcane intellectual matters, but that bear directly on fundamentally important matters of business and politics. There are hurdles to overcome, but these are not impassable.

What is perhaps the most promising aspect of the new fiscal sociology represented by this volume is the framing of taxation as a relational concept. That is,

tax systems affect and reflect social relations of various sorts. The editors argue in their introduction that tax systems are forms of a social contract that influence and specify relationships between individuals and their government and society. Many of the chapters in this volume illustrate this point by discussing how tax systems are the result of struggles, conflicts, negotiations, and compromises among citizens and rulers, different social classes, and the like. And although many of these chapters demonstrate this from a historical perspective, we can do the same by thinking about the future. For instance, because of its low tax burden relative to spending, the United States is passing a significant portion of the costs of today's federal programs, notably entitlements like Social Security and health care, along to future generations in the form of skyrocketing national debt. In other words, today's tax system forges an implicit social contract with future generations who will have to compensate for our lack of fiscal discipline through innovative fiscal policies of their own. The point is that by recognizing that taxation is necessarily about social relations, it becomes virtually impossible to ignore its sociological character. For this reason alone the study of taxation ought to spawn increasing interest among sociologists as well as social scientists more generally – not just among public finance economists.

That said, additional steps can be taken to broaden the audience to which fiscal sociology speaks. For example, although many of the chapters in this volume are qualitative, the increasing availability of good quantitative data lends itself to statistical analysis. Some work has been done along these lines. Indeed, some researchers have tried to identify the conditions under which tax reforms are more or less likely to occur. In some cases, they have drawn lessons from this about how states and the policy-making process operate more generally (e.g., Allen and Campbell 1994; Campbell and Allen 1994; Steinmo and Tolbert 1998; Swank 2002, Chap. 7). Central here has been an interest in whether public opinion and interest groups of various sorts drive tax policy, or whether elites sitting behind closed doors do so. This issue is either implied or discussed explicitly by several contributors to this volume, but especially by Fred Block and Andrea Campbell. Of course, this should concern anyone wondering about the nature of democracy. A case in point is Lieberman's chapter, which shows that the study of taxation provides excellent subject matter for constructing theories about how states operate and about the conditions under which they treat different groups within them equally or not.

Similarly, economists and others have studied how taxation affects income distributions across the general population of countries. Work has also been done examining the degree to which taxation may affect racial or gender groups differently. This is a theme that appears in the chapters by Lieberman, Einhorn, and Moran, and that is well worth exploring further insofar as issues of race and gender attract much attention in general among the social sciences as well as the public. In particular, Edward McCaffery's chapter, which builds on previous work by legal scholars, shows how taxation affects the family. Yet, this sort of work could probably benefit from a tighter integration with sociology and other social sciences.

There is also much interest among social scientists these days about how policies in one country affect those in another. As suggested by Brownlee's chapter on Japanese tax reform after World War II, and by Ide and Steinmo's discussion of more recent Japanese reforms, international effects can be profound yet complex. That is, fiscal reform ideas can travel from one country to another with significant effect, depending on the situation. This is an idea that should have broad resonance, at least in light of the extensive interdisciplinary literature on how policy ideas diffuse internationally through interpersonal networks of policy makers and experts, international nongovernmental organizations, transnational social movement activists, and the like (e.g., Boli and Thomas 1999; Dolowitz and Marsh 1996; Keck and Sikkink 1998).

These ideas, obviously, just begin to scratch the surface of some of the broadly appealing questions and issues that fiscal sociology can address. Indeed, given the opportunities I have outlined and the evidence provided by contributors to this volume, I am optimistic that the field can come to enjoy a long and healthy future, and that a renaissance for fiscal sociology is fast approaching.